

Date	Indicator	For	Estimate	Consensus*	Previous Period
21-Jul-2020	Chicago Fed Nat Activity Index	Jun	NA	4.0	2.6
22-Jul-2020	FHFA House Price Index MoM	May	0.4%	0.4%	0.2%
22-Jul-2020	Existing Home Sales	Jun	4.40m	4.80m	3.91m
23-Jul-2020	Initial Jobless Claims	18-Jul	1330k	NA	1300k
23-Jul-2020	Leading Index	Jun	2.0%	2.4%	2.8%
23-Jul-2020	Kansas City Fed Manufacturing Activity	Jul	5.0	NA	1.0
24-Jul-2020	Markit US Manufacturing PMI	Jul P	51.0	52.0	49.8
24-Jul-2020	Markit US Services PMI	Jul P	49.9	51.0	47.9
24-Jul-2020	Markit US Composite PMI	Jul P	NA	NA	47.9
24-Jul-2020	New Home Sales	Jun	690k	700k	676k

*Consensus from Bloomberg

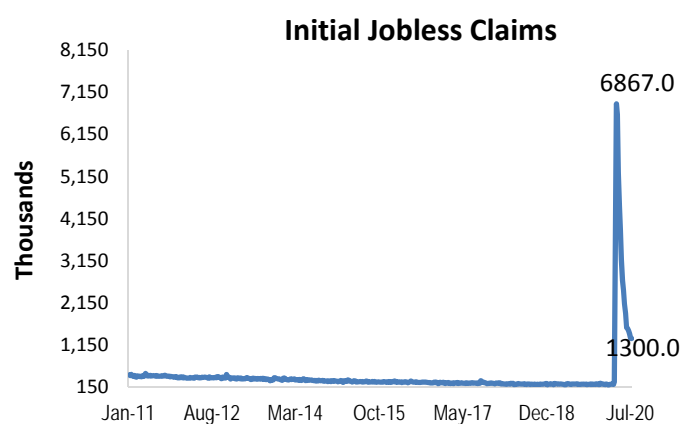
Dark Clouds Forming On The Horizon

Like a mid-summer thunderstorm approaching from the West, dark clouds are beginning to build on our economic and financial horizon yet again. It's still too early to know whether we will be hit by an imminent downpour or not. A last minute economic rescue package in the \$1 to \$2 trillion dollar range from Congress before the end of July could help keep the storm clouds at bay until the end of the year, but the increasing virus case count is already doing some material damage to the pace of the economic recovery in my opinion.

Here are some of the dark clouds that are starting to come into view. First the labor market recovery appears to be stalling as initial jobless claims remain stubbornly high, despite nearly all states reopening to some extent over the past two months. Twenty-two states have already taken actions to partial rollback their reopening or close down again, including the state of California.

Many restaurants and bars and other small businesses had just reopened only to find they will have to close again and layoff staff. A Yelp survey of 24,000 restaurants completed in the middle of June finds that 53% have permanently closed. Small businesses with the highest rates of closure, according to Yelp, are shopping and retail (35% report permanent closure), restaurants (53% permanent closures), beauty (24% permanent closure), and fitness businesses (26% permanent closure). Across all categories, Yelp is reporting 41% of its small businesses are reporting permanent closures.

Easy Reopening Gains Likely Over For This Labor Market

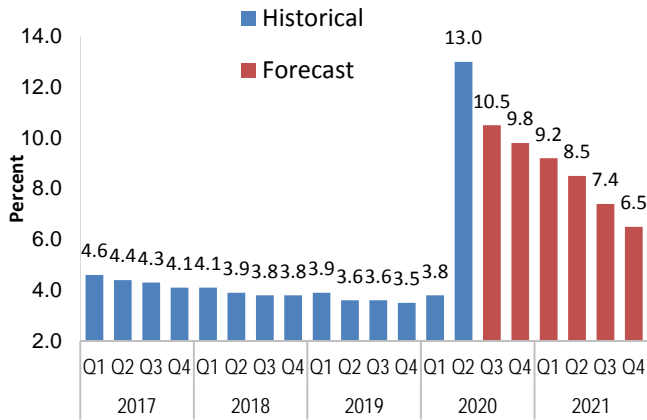


Source: U.S. Employment and Training Administration

We have already started pushing up our forecast for the U.S. unemployment rate due to the July virus case resurgence. We now see the U.S. unemployment rate averaging 9.8% in the fourth quarter of 2020, not much lower than June's 11.1% unemployment rate.

Get Used To Double-Digit Unemployment Rates

Unemployment Rate

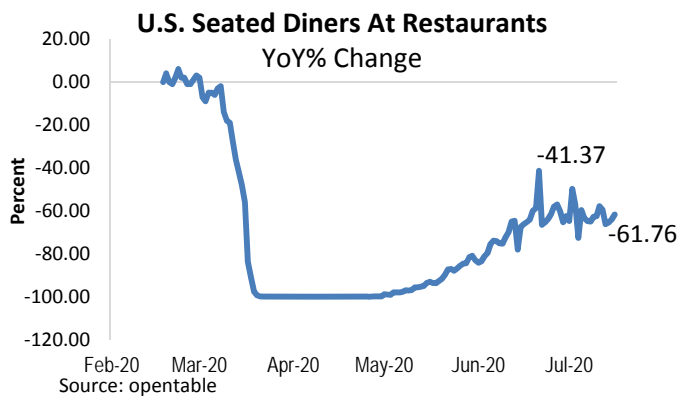


Source: US. Bureau of Labor Statistics; BOTW Economics

The real shift in the economic outlook is coming from the deterioration in the virus case outlook. Rather than a short and sharp two or three month shock, consumers and businesses must now prepare for a more prolonged pandemic with no clear endpoint in sight. Risk adverse households and businesses will need to more closely guard their future spending and pull-back on non-essential categories, prolonging the economic malaise into next year.

Consumers are already become more cautious. OpenTable’s dinner reservation recovery peaked way back on June 21 at -41.37 percent from a year ago, but for much of July has been more than 60% below last year’s pace.

Restaurant Reservations Go Back Into Reverse

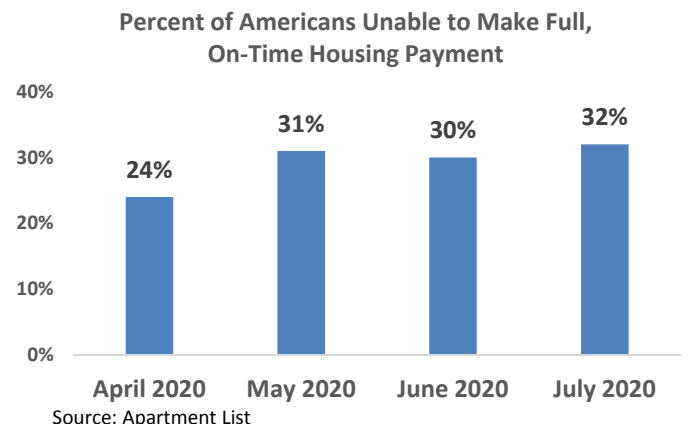


The big 4.9 point pull-back in the University of Michigan’s preliminary consumer sentiment index for July to 73.2, just above May levels, reveals the potential problem for sustainable consumer spending improvement in the face of this prolonged pandemic. The future expectations component of this consumer sentiment survey fell by an even larger 6.1 points on surging virus cases. Consumers’ appraisal of the U.S. labor market continues to deteriorate. In July 21.8% of consumers thought their spouse would lose their job over the next 5 years - up from 20.7% in June and 18.9% who thought so in April.

Lastly, generous government payments and deferrals to households and businesses over the past several months are masking some serious longer-term financial stability concerns.

A monthly survey from Apartment List, clearly illustrates the potential problems ahead. According to the survey, in July 32% of Americans were unable to make full on-time housing payments. Even more troubling than the high percentage unable to make full on-time payments is that fact that that percentage has been going up steadily since April.

1/3 of Households Have Trouble Making Payments



To avoid an economic and financial downpour from these dark clouds that are forming, it will be critical for Congress to act boldly to keep vulnerable sectors of economy afloat until there is light at the end of the tunnel on this pandemic. Otherwise, more households and businesses will permanently sink under the economic and financial weight of this pandemic.

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Key Economic and Interest Rate Forecasts

Economic Data	History					Forecast								Yr/Yr % chg or Annual Avg.			
	2019.1	2019.2	2019.3	2019.4	2020.1	2020.2	2020.3	2020.4	2021.1	2021.2	2021.3	2021.4	2018	2019	2020	2021	
Real GDP*	3.1	2.0	2.1	2.1	-5.0	-35.1	17.3	4.9	4.8	4.1	3.3	3.3	2.9	2.3	-4.8	3.3	
Personal Consumption Expenditures*	1.1	4.6	3.2	1.8	-6.8	-35.5	25.0	5.0	3.4	3.1	2.6	2.5	3.0	2.6	-4.2	3.5	
Non-residential Fixed Investment*	4.4	-1.0	-2.3	-2.4	-6.4	-31.9	-15.3	-6.1	1.5	2.5	3.2	3.0	6.4	2.1	-10.3	-3.8	
Private Housing Starts (000s units)	1,204	1,257	1,288	1,433	1,487	963	980	970	985	1,025	1,075	1,150	1,208	1,296	1,100	1,059	
Vehicle Sales (mill. Units, annualized)	16.9	17.0	17.0	16.8	15.5	11.3	13.6	14.1	14.7	15.0	15.2	15.3	17.2	16.9	13.6	15.1	
Industrial Production*	-1.9	-2.3	1.1	0.4	-6.8	-42.6	40.0	8.0	6.0	5.3	4.5	4.4	3.9	0.9	-6.5	6.1	
Nonfarm Payroll Employment (mil.)	150.2	150.6	151.2	151.8	151.9	133.7	134.9	135.9	137.6	139.2	140.7	142.3	146.6	150.9	139.1	139.9	
Unemployment rate	3.9	3.6	3.6	3.5	3.8	13.0	10.5	9.8	9.2	8.5	7.4	6.5	4.4	3.7	9.3	7.9	
Consumer Price Index* (percent)	0.9	3.0	1.8	2.4	1.2	-3.3	1.0	1.0	1.0	1.0	1.3	1.4	2.4	1.8	0.7	0.8	
"Core" CPI* (percent)	2.2	2.2	2.8	2.0	2.0	0.4	1.0	1.2	1.3	1.4	1.4	1.5	2.1	2.2	1.6	1.2	
PPI (finished goods)* (percent)	-2.7	4.7	-1.2	3.0	-2.5	-10.0	-2.5	-1.0	0.1	0.9	1.6	1.7	3.0	0.8	-2.2	-0.6	
Trade Weighted Dollar (Fed BOG, major)	114.5	115.4	116.5	116.4	117.7	122.3	122.0	122.5	122.0	121.5	121.5	120.5	91.1	115.7	121.1	121.4	
Crude Oil Prices -WTI (\$ per barrel)	55	60	56	57	43	33	39	38	38	38	39	39	51	57	38	39	

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

Financial Data	History					Forecast								Annual Average			
	2019.1	2019.2	2019.3	2019.4	2020.1	2020.2	2020.3	2020.4	2021.1	2021.2	2021.3	2021.4	2018	2019	2020	2021	
S & P 500	2,721	2,882	2,958	3,083	3,056	2,932							2,449	2,911			
Dow Jones Industrial Average	25,147	26,096	26,676	27,537	26,554	24,571							21,745	26,364			
Federal Funds Rate (effective)	2.40	2.40	2.20	1.65	1.23	0.06	0.13	0.13	0.13	0.13	0.13	0.13	1.00	2.16	0.39	0.13	
Treasury-3 Month Bills (yield)	2.44	2.35	2.03	1.61	1.10	0.14	0.14	0.14	0.14	0.14	0.14	0.15	0.95	2.11	0.38	0.14	
Treasury-2 Year Notes (yield)	2.49	2.13	1.69	1.59	1.08	0.19	0.15	0.16	0.18	0.20	0.21	0.23	1.40	1.97	0.39	0.20	
Treasury-5 Year Notes (yield)	2.46	2.12	1.63	1.61	1.14	0.36	0.31	0.33	0.36	0.39	0.42	0.43	1.91	1.96	0.53	0.40	
Treasury-10 Year Notes (yield)	2.65	2.34	1.80	1.79	1.37	0.69	0.70	0.76	0.80	0.83	0.90	0.93	2.33	2.15	0.88	0.86	
Treasury-30 Year Notes (yield)	3.01	2.78	2.29	2.25	1.87	1.38	1.45	1.51	1.57	1.61	1.69	1.73	2.90	2.58	1.55	1.65	
Prime Rate	5.50	5.50	5.31	4.83	4.43	3.25	3.25	3.25	3.25	3.25	3.25	3.25	4.10	5.29	3.54	3.25	
Libor 3-Mo. U.S. Dollar	2.69	2.51	2.20	1.93	1.53	0.60	0.28	0.30	0.30	0.30	0.29	0.29	1.26	2.33	0.67	0.29	
Mortgage-30 Year (yield)	4.37	4.01	3.66	3.70	3.52	3.24	3.20	3.26	3.30	3.23	3.30	3.33	3.99	3.94	3.30	3.29	
BAA Corporate (yield)	4.97	4.60	4.03	3.91	3.91	3.91	3.50	3.66	3.80	3.93	4.20	4.23	4.44	4.38	3.74	4.04	

Source: Bank of the West Economics, Bloomberg, Federal Reserve